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COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

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BRIAN C. MCNEIL
Executive Secretary

2003 OCT 16 A 10:36

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: October 16, 2003
DOCKET NO: W-02448A-03-0278
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Amanda Pope. The recommendation has been filed in the form of an Opinion and Order on:

HIGH COUNTRY PINES WATER COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 27, 2003

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

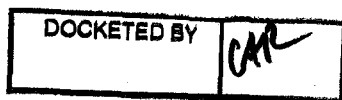
NOVEMBER 4 and 5, 2003

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

OCT 16 2003



BRIAN C. MCNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 MARC SPITZER, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 MIKE GLEASON
7 KRISTIN K. MAYES

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IN THE MATTER OF THE APPLICATION OF
HIGH COUNTRY PINES WATER COMPANY
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-02448A-03-0278

DECISION NO. _____

ORDER

Open Meeting
November 4 and 5, 2003
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. High Country Pines Water Company ("High Country" or "Company") is an Arizona public service corporation that currently provides public water utility service to approximately 125 customers in an area along Highway 260, in Navajo County approximately one mile west of Heber, Arizona.

2. High Country is organized as a C corporation and provides water utility service under authority of a Certificate of Convenience and Necessity granted by the Commission in Decision No. 54478 dated April 17, 1985.

3. On October 25, 1993, High Country filed a proposed tariff revision to establish a special commodity rate for the Salvation Army Youth Camp ("SAYC"). This special rate allowance was approved in Decision No. 58499 (January 13, 1994).

4. The Commission authorized High Country's current permanent rates, including the special commodity rate for the SAYC, in Decision No. 60893 (May 22, 1998).

5. On May 1, 2003, High Country filed with the Commission an application for a permanent rate increase.

1 6. On June 2, 2003, the Commission's Utilities Division Staff ("Staff") filed a letter
2 informing High Country that its application was insufficient.

3 7. On June 16, 2003, High Country filed a revised application to perfect the deficiencies
4 noted in Staff's June 2, 2003 letter.

5 8. On July 11, 2003, High Country filed an application for a permanent rate increase,
6 which was intended to replace all previous filings in this matter.

7 9. On July 16, 2003, Staff filed a letter informing High Country that its application had
8 met the Commission's sufficiency requirements and classifying High Country as a Class D utility.

9 10. The Company mailed notice of its rate application to its customers on July 11, 2003.

10 11. After customer notification, the Commission's Consumer Services section received five
11 opinions from customers. Two customers were opposed to the proposed increase, one customer was
12 in favor of the increase, and two customers felt that additional storage tanks are needed.

13 12. On September 23, 2003, Staff filed its Staff Report recommending approval of its
14 recommended rates and charges without a hearing.

15 13. On October 6, 2003, Staff filed an amended Schedule 4 to its September 23, 2003
16 Staff Report. This amended Schedule makes typographical changes to Staff's report relating to High
17 Country's proposed service charges and includes Staff's recommendation with regard to High
18 Country's proposal for Reconnection (Delinquent) Fees (After Hours), Late Fees, and Call Out Fees.

19 14. High Country's system consists of a well, which pumps into a storage tank, followed
20 by two 10 horsepower ("Hp") booster pumps and a 5,000 gallon pressure tank. There is also a 25
21 Hp booster on standby for fire flow needs.

22 15. Based on test year results for the year ended December 31, 2002, as adjusted by Staff,
23 High Country realized an operating loss of \$10,678.

24 16. The Company proposed an increase in revenues of \$3,788, for total operating
25 revenues of \$62,085, and an operating loss of \$7,769.

26 17. Staff recommended an increase in revenues of \$5,449, for total operating revenues of
27 \$63,746, which with total operating expense of \$55,820, results in a recommended operating income
28 of \$7,926.

18. High Country's present and proposed rates and charges, as well as Staff's recommended rates and charges, are as follows:

	Present Rates	Proposed Rates	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$20.00	\$20.00	\$20.00
3/4" Meter	30.00	30.00	30.00
1" Meter	50.00	50.00	50.00
1 1/2" Meter	100.00	100.00	100.00
2" Meter	136.00	136.00	136.00
3" Meter	255.00	255.00	255.00
4" Meter	370.00	370.00	370.00
6" Meter	900.00	900.00	900.00
Gallons included in Minimum	0	0	0
Excess of Minimum – per 1,000 Gallons	\$3.35	N/A	N/A
From 1 to 100,000 Gallons	N/A	\$3.85	N/A
Over 100,000 Gallons	N/A	4.00	N/A
From 1 to 2,000 Gallons	N/A	N/A	\$3.50
From 2,001 to 10,000 Gallons	N/A	N/A	3.75
Over 10,000 Gallons	N/A	N/A	4.00
Special Rates for Salvation Army Youth Camp			
4" Meter – Usage Charge	\$275.00	\$275.00	\$275.00
Per 1,000 Gallons	\$2.50	\$2.875	\$2.875
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
(Refundable pursuant to A.A.C. R14-2-405)			
5/8" x 3/4" Meter	\$330.00	\$400.00	\$400.00
3/4" Meter	375.00	425.00	425.00
1" Meter	440.00	510.00	510.00
1 1/2" Meter	660.00	770.00	770.00
2" Meter	1,150.00	1,340.00	1,340.00
3" Meter	1,625.00	1,870.00	1,870.00
4" Meter	2,540.00	2,930.00	2,930.00
6" Meter	4,875.00	5,610.00	5,610.00
<u>SERVICE CHARGES:</u>			
Establishment	\$35.00	\$45.00	\$40.00
Establishment (After Hours)	50.00	90.00	60.00
Reconnection (Delinquent)	25.00	45.00	40.00

1	Reconnection (Delinquent) after hours	N/A	90.00	60.00
2	Meter Test (If Correct)	50.00	70.00	50.00
3	Deposit	*	*	*
4	Deposit (proposed) Residential	N/A	2X estimated average	*
5	Deposit (proposed) Non-Residential	N/A	2.5X estimated average	*
6	Deposit Interest	*	6.00%	*
7	Reestablishment (Within 12 Months)	**	**	**
8	NSF Check	15.00	25.00	20.00
9	Deferred Payment (per month)	1.50%	1.50%	1.50%
10	Meter Re-Read (If Correct)	15.00	35.00	20.00
11	Late Fee	1.50%	\$5.00	1.50%
12	Call Out Fee	25.00	45.00	40.00
13	<u>MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER</u>			
14	4" or Smaller	\$0.00	\$0.00	***
15	6"	0.00	0.00	***
16	8"	0.00	0.00	***
17	10"	0.00	0.00	***
18	Larger than 10"	0.00	0.00	***

* Per Commission Rule (A.A.C. R14-2-403(B)).

** Months off system times the minimum (A.A.C. R14-2-403(D)).

*** 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

19. Staff made three adjustments to the Company's proposed rate base of (\$115,462). Staff's first rate base adjustment is a \$374.00 increase to the Company's proposed Plant in Service. This adjustment is a result of Staff restating the Structures and Improvements plant category to the Commission-approved ending balance of \$7,867 per Decision No. 60893 dated May 22, 1998.

20. Staff's second adjustment is a \$13,446 reduction in the Company's proposed accumulated depreciation balance. Staff arrived at its proposed accumulated depreciation balance of \$271,757 by beginning with the accumulated depreciation balance of \$130,621 approved per Decision No. 60893, adding depreciation expense at the approved five percent depreciation rate for the years 1997 through 2002, and then reducing accumulated depreciation by \$2,017 to reflect retired plant.

21. The third adjustment Staff proposed is a \$21.00 reduction in working capital, based

1 on Staff's adjustments to operating expenses.

2 22. Staff's adjustment to the Company's proposed Plant in Service is reasonable and we
3 adopt it. As a result, High Country's test year adjusted Plant in Service balance is \$759,226. We
4 also find Staff's proposed adjustment to Accumulated Depreciation reasonable and will adopt it, for
5 a test year adjusted Net Plant in Service balance of \$487,469. Staff's adjustments to rate base, as
6 reflected in the Staff Report, are reasonable and should be adopted. Consequently, High Country's
7 Fair Value Rate Base ("FVRB") is determined to be (\$101,663).

8 23. Staff adjusted the Company's proposed test year Operating Revenues upward by
9 \$700. This adjustment was a result of reclassifying late fees income from other interest income to
10 other water revenues to properly record late payment transactions.

11 24. Staff made a total of six adjustments to Operating Expenses, detailed below, resulting
12 in a net decrease of \$179.00 to the Company's filing of \$69,854, for total adjusted test year
13 Operating Expenses of \$69,675.

14 25. Staff adjusted High Country's outside service expenses upward by \$650.00 to reflect
15 invoices found by Staff audit.

16 26. Staff reclassified \$12.00 in regulatory Commission rate case expense to
17 miscellaneous expense and \$1,042 in regulatory Commission rate case expense to the water testing
18 expense account. Staff then reduced water testing expense by \$820.00, which represents a pro forma
19 adjustment reflecting the Staff engineering estimate of annual water testing costs. Staff's net
20 adjustment to water testing is \$222.00.

21 27. Staff adjusted High Country's depreciation expense upward by \$19.00 to account for
22 Staff's adjustment of the Structures and Improvements account in Plant in Service and adjusted High
23 Country's property tax expense upward by \$28.00 to account for invoices found by Staff audit to be
24 properly classified as property tax expense.

25 28. Staff's adjustments to Operating Revenues and Operating Expenses are reasonable,
26 and we adopt them. As adjusted, High Country had test year Operating Revenues of \$58,997 and
27 test year Operating Expenses of \$69,675, for an adjusted test year operating loss of \$10,678.

28 29. Due to the Advances in Aid of Construction and Contributed Plant, the Company has

1 an Original Cost Rate Base ("OCRB") of (\$101,663).

2 30. Because the Company has a negative OCRB, a rate of return analysis is not useful in
3 setting rates. Staff based its rate recommendation on an operating margin of 12.43 percent, and believes
4 that its proposed rates will produce an operating income adequate to enable the Company to meet
5 current operating levels and provide a cushion for contingencies. We find this methodology
6 reasonable in the circumstances of this case and find that it results in rates that are just and
7 reasonable. We will therefore adopt Staff's proposed revenue requirement.

8 31. Staff agreed with the Company's proposed increases to its Service Line and Meter
9 Installation charges.

10 32. Staff's proposed Service Charges are reasonable and should be adopted.

11 33. High Country currently has a rate design consisting of a flat commodity rate structure
12 with no gallons included in the \$20.00 monthly usage charge and a \$3.35 charge for every 1,000
13 gallons. The Company proposes a rate design consisting of a two tiered commodity rate with no
14 gallons included in the monthly minimum charge of \$20.00, a rate of \$3.85 per gallon for usage from
15 0 to 100,000 gallons, and a rate of \$4.00 per gallon for all water usage over 100,000 gallons. The
16 Company proposes a commodity rate for the SAYC with a monthly minimum charge of \$275.00 and
17 a single commodity rate of \$2.875 per 1,000 gallons for all usage.

18 34. Staff recommends adoption of a three tiered rate structure, with rates designed to
19 recover its recommended revenue requirement. Staff believes that its recommended tier breaks are
20 compatible with water conservation efforts and usage patterns. Staff's proposed rates are based on a
21 monthly minimum charge of \$20.00, with commodity rates of \$3.50 per 1,000 gallons for the first
22 2,000 gallons, \$3.75 per 1,000 gallons for usage from 2,001 up to 10,000 gallons, and \$4.00 per
23 1,000 gallons for all water usage over 10,000 gallons.

24 35. Staff recommends approval of the commodity rate requested by the Company for the
25 SAYC.

26 36. During the test year, the Company's residential customers had a median use of 966
27 gallons, and the SAYC had an average use of 318,150 gallons.

28 37. The Company's proposed rates would increase the median 5/8 x 3/4 inch meter

1 monthly bill by 2.1 percent, from \$23.24 to \$23.72 and the SAYC's monthly bill by 11.1 percent,
2 from \$1,070.38 to \$1,189.68.

3 38. Staff's recommended rates would increase the median 5/8 x 3/4 inch meter monthly
4 bill by 0.6 percent, from \$23.24 to \$23.38. Staff recommends approval of the commodity rate
5 requested by the Company for the SAYC.

6 39. As reported by the Arizona Department of Environmental Quality ("ADEQ"), High
7 Country's water system has no deficiencies and is currently delivering water that meets the water
8 quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

9 40. Staff reports that High Country's most recent lab analysis indicates that the arsenic
10 level in its source supply was 3 micrograms per liter ($\mu\text{g/l}$). Based on this arsenic level, the
11 Company is in compliance with the U.S. Environmental Protection Agency's new Maximum
12 Contaminant Level for arsenic of 10 $\mu\text{g/l}$, effective in 2006.

13 41. The Company is current on all property and sales taxes.

14 42. The Company is current with Commission filing requirements.

15 43. High Country does not have a curtailment plan tariff on file with the Commission.
16 Staff recommends that the Commission order High Country to file a curtailment plan tariff.

17 44. Staff recommends that its proposed rates and charges appearing on Schedule 4, as
18 amended by its October 6, 2003 submission, of the Staff Report be approved without a hearing.

19 45. Staff recommends that High Country be ordered to adopt the by-account depreciation
20 rates shown in Exhibit 3 of the Engineering Report attached to the Staff Report.

21 46. Staff recommends that High Country should be ordered to collect from its customers
22 their proportionate share of any Transaction, Privilege, Sales, or Use Tax as provided for in A.A.C.
23 R14-2-409(D) in addition to the collection of its regular rates and charges.

24 47. Staff's recommendations in Findings of Fact Nos. 43 through 46 are reasonable, and
25 we will adopt them.

26 CONCLUSIONS OF LAW

27 1. High Country is a public service corporation within the meaning of Article XV of the
28 Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over High Country and the subject matter of the application.

3. Notice of the application was provided in the manner prescribed by law.

4. The rates and charges authorized herein are just and reasonable and should be approved without a hearing.

ORDER

IT IS THEREFORE ORDERED that High Country Pines Water Company shall file with the Commission, on or before November 28, 2003, the following schedule of rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$20.00
3/4" Meter	30.00
1" Meter	50.00
1 1/2" Meter	100.00
2" Meter	136.00
3" Meter	255.00
4" Meter	370.00
6" Meter	900.00

Usage Charges

Gallonage Charge per 1,000 gallons:

1 to 2,000 gallons	\$3.50
2,001 to 10,000 gallons	3.75
Over 10,000 gallons	4.00

Special Rates for Salvation Army Youth Camp

4" Meter – Usage Charge	\$275.00
Per 1,000 Gallons	\$2.875

Service Line and Meter Installation Charges

5/8" x 3/4" Meter	\$400.00
3/4" Meter	425.00
1" Meter	510.00
1 1/2" Meter	770.00
2" Meter	1,340.00
3" Meter	1,870.00
4" Meter	2,930.00
6" Meter	5,610.00

SERVICE CHARGES:

1	Establishment	\$40.00
1	Establishment (After Hours)	60.00
2	Reconnection (Delinquent)	40.00
2	Reconnection (Delinquent/After Hours)	60.00
3	Meter Test (If Correct)	50.00
4	Deposit	*
4	Deposit Residential	*
5	Deposit Non-Residential	*
5	Deposit Interest	*
6	Reestablishment (Within 12 Months)	**
6	Reestablishment (Within 12 Months/After Hours)	N/A
7	NSF Check	20.00
8	Deferred Payment (per month)	1.50%
8	Meter Re-Read (If Correct)	20.00
9	Late Fee	1.5%
9	Call Out Fee	40.00

* Per Commission Rule (A.A.C. R14-2-403(B)).

** Months off system times the minimum (A.A.C. R14-2-403(D)).

*** 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after December 1, 2003.

IT IS FURTHER ORDERED that High Country Water Company shall notify its customers of the rates and charges authorized herein and the effective date of same by means of an insert in its next regular monthly billing.

IT IS FURTHER ORDERED that High Country Water Company shall file with the Commission a copy of the notice it sends to its customers within 60 days of this Decision.

IT IS FURTHER ORDERED that High Country Water Company shall, within 60 days of this Decision, file with the Commission a curtailment plan tariff similar to the sample tariff posted on the Commission's web site or available upon request from Commission Staff.

IT IS FURTHER ORDERED that High Country Water Company shall adopt the depreciation rates shown in Exhibit 3 of the Engineering Report attached to the September 23, 2003 Staff Report in this docket.

...

IT IS FURTHER ORDERED that High Country Water Company shall collect from its customers, in addition to the collection of its regular rates and charges, its customers' proportionate share of any Transaction, Privilege, Sales, or Use Tax as provided for in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2003.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

AP:mlj

1 SERVICE LIST FOR: HIGH COUNTRY WATER COMPANY

2
3 DOCKET NO.: W-02448A-03-0278

4 Gregory G. Horne, President
5 High Country Pines Water Company
6 9630 North 25th Avenue, Suite 450
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7 Christopher Kempley, Chief Counsel
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